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**FISCAL IMPACT STATEMENT**

**LS 6948**

**BILL NUMBER: SB 518**

**NOTE PREPARED:** Jan 14, 2009

**BILL AMENDED:**

**SUBJECT:** State and Local Spending Caps.

**FIRST AUTHOR:** Sen. Delph

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides a control on state expenditures for state fiscal years beginning after June 30, 2009, that is based on the changes in: (1) the population of Indiana; and (2) the consumer price index for the midwest region for all items as published by the Bureau of Labor Statistics. It requires the Budget Agency to determine and publish the spending cap amounts in the Indiana Register. It provides for emergency expenditures. The bill requires that the digest of a budget bill or a conference committee report on a budget bill contain certain information concerning state appropriations and expenditures. It provides that current law concerning business cycle state spending controls expires June 30, 2009. It provides a control on the expenditures of political subdivisions for local fiscal years beginning after December 31, 2009, that is based on the changes in: (1) the population of the geographical territory of the political subdivision; and (2) the consumer price index for the Midwest region for all items.

**Effective Date:** July 1, 2009.

**Explanation of State Expenditures:** *Expenditure Limits* - The bill establishes a new method of determining annual state spending caps beginning with FY 2010 appropriations and allotments, and provides that the current state spending cap method expires at the end of FY 2009. The bill requires the Budget Agency to publish in the Indiana Register the state spending cap for expenditures from appropriations made from state revenues for an ensuing two-year budget period no later than April 1<sup>st</sup> of the odd-numbered year in which that budget period is to begin. The first two-year budget period that the bill applies to is the FY 2010-FY 2011 budget period beginning on July 1, 2009. However, the bill specifies that the state spending caps for FY 2010 and FY 2011 must be published as soon as practicable after April 29, 2009.

“Expenditures” are expenditures payable from state revenue to: (1) obtain an asset or service; (2) reduce a liability; or (3) make an intergovernmental transfer to a state educational institution, political subdivision, instrumentality of a political subdivision, pension fund, trust, or other instrumentality of the state. A refund for an overpayment of taxes or fees or other return of a surplus to taxpayers is not an expenditure. “State revenue” is money received for deposit in the State Treasury from: (1) taxes; (2) intergovernmental transfers from a political subdivision; (3) lease or sale of property; or (4) fees. The method for determining the maximum total expenditure amounts for each fiscal year of a budget period is described in (1) and (2) below.

(1) The state spending cap for the first fiscal year of an ensuing budget period (i.e. FY 2010) is based on the state spending cap for the first fiscal year of the current budget period (i.e. FY 2008) multiplied by an estimate of the composite percentage change in state population and consumer prices during the current budget period. (Note: The FY 2008 expenditures by the state would be used in lieu of a computed spending cap to start the procedure under the bill.)

(2) The state spending cap for the second fiscal year of an ensuing budget period (i.e. FY 2011) is based on the state spending cap determined in (1) above multiplied by an estimate of the composite percentage change in state population and consumer prices during that first fiscal year of the ensuing budget period (i.e. FY 2010).

The “composite percentage change” is the sum of: (1) the percentage change in the Consumer Price Index for all urban consumers for the Midwest region; and (2) the percentage change in state population as determined by the most recent of the federal decennial census, a federal special census, a special tabulation, a corrected population count, mid-decade census, or annual and interim current data on population. The composite percentage change for the first 20 months of the current budget period would be used to estimate the two-year and one-year rates of change for an ensuing budget period. Thus, the composite percentage change in population and consumer prices from July 1, 2007, to February 28, 2009, would be used to estimate the two-year and one-year rates of change to determine the state spending caps for FY 2010 and FY 2011.

It is estimated that the composite percentage change computed based on data currently available would allow the state spending cap to grow by an average of 1.14% per year during the FY 2010-FY 2011 budget period.

The bill states that the General Assembly shall not appropriate, and the Budget Director may not allot, a sum of expenditures in a state fiscal year that exceeds the state spending cap. The bill allows the state spending cap to be increased, if at least one of the following occurs: (1) a spending responsibility shifts from another level of government that is payable from state revenues; (2) a spending responsibility shifts from a source of revenue other than state revenue to state revenues; or (3) there will be an expansion of state services or intergovernmental distributions that are payable from state revenue and a tax increase or other action to increase state revenue has been dedicated to the services or intergovernmental distributions. The increase in the spending cap requires approval of a majority of both the House and Senate. The bill also sets out procedures for the reduction of the state spending cap under certain conditions.

This bill affects appropriations and allotments for fiscal years beginning FY 2010. The impact on state spending is indeterminable and subject to legislative, executive, and judicial actions.

*Budget Bill Requirements* - This bill requires that the digest of the conference committee report on the budget bill contain the following information: (1) the total amount of appropriations from state revenues; (2) the total amount of appropriations for expenditures subject to the state spending cap provisions; and (3) the state spending cap for each state fiscal year covered by the budget bill. This requirement would first apply for the

budget bill considered during the 2009 General Assembly.

### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Expenditure Limits* - The bill establishes a method for determining annual spending caps for political subdivisions beginning in CY 2010, with the requirement beginning in FY 2011 (July 1, 2010 to June 30, 2011) for school corporations.

The bill requires a political subdivision to determine its general revenue spending cap for an ensuing calendar year budget period based on its spending cap for the current year multiplied by an estimate of the composite percentage change in the population of the political subdivision and consumer prices during the current calendar year (see *Explanation of State Expenditures* for information on the population and consumer price measures). (Note: The CY 2009 expenditures by the political subdivision (or FY 2009 expenditures for school corporations) would be used in lieu of a computed spending cap to start the procedure under the bill.) The bill requires a similar procedure to be used by school corporations with the ensuing fiscal year spending cap based on the current fiscal year spending cap multiplied by an estimate of the composite percentage change in population of the school corporation and consumer prices during the current fiscal year.

“General revenue” for political subdivisions is money received from : (1) taxes; (2) intergovernmental transfers from the state or another political subdivision; (3) lease or sale of property; (4) fees; (5) special assessments; or (6) tax increment revenues derived from taxes imposed by another political subdivision or the state..

For an ensuing calendar year budget period, the composite percentage change would be the sum of population change in the political subdivision and consumer price change during the immediately preceding calendar year and the first seven months of the current calendar year. For CY 2010, the computation would be based on the January 1, 2008 to July 31, 2009 change in population and consumer prices. For an ensuing fiscal year budget period, the composite percentage change would be the change in population and consumer prices during the immediately preceding fiscal year and the first five months of the current fiscal year. For FY 2011, the computation would be based on the July 1, 2008 to November 30, 2009 change in population and consumer prices.

The bill states that the fiscal body of a political subdivision shall not appropriate from general revenues a total sum of expenditures for the political subdivision’s budget year exceeding its spending cap. The bill allows a local spending cap to be increased, if at least one of the following occurs: (1) a spending responsibility shifts from another level of government that is payable from general revenues; (2) a spending responsibility shifts from a source of revenue other than general revenues to general revenues; or (3) there is a service, territory, or intergovernmental distribution increase and an increase in general revenues is dedicated to the additional services or distributions. The bill requires the Department of Local Government Finance to determine the increase in a political subdivision’s spending cap. The bill also sets out procedures for the reduction of a local spending cap under certain conditions.

This bill affects appropriations for fiscal years beginning either January 1, 2010 or July 1, 2010. The impact on local spending is indeterminable.

### **Explanation of Local Revenues:**

**State Agencies Affected:** State Budget Agency, General Assembly.

**Local Agencies Affected:** All political subdivisions.

**Information Sources:** U. S. Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers in the Midwest, All Items: June 2007 and November 2008 indices. U. S. Census Bureau, Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2008 (NST-EST2008-01): July 1, 2007 and July 1, 2008 Indiana population estimates.

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